Weekly Market Review

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The Week Ending March 28, 2020

Extreme volatility continued last week with the S&P 500 Index finishing the week up 10%, following a 15% loss in the prior week. Unfortunately, this felt more like a bear market rally than an all-clear from further uncertainty. One reason for this is we set records not seen in over eight decades; this does not seem like the sign of fears subsiding and a new bull market commencing.

Before last week, we experienced the quickest decline of 30% or more on record; the next three fastest periods were during the Great Depression. On the other side of the equation, we experienced the biggest one-day gain since March 1933 and the biggest three-day rally since April 1933, both happening just last week. According to Bloomberg, in 1933, the stock market was closed for an unplanned holiday to provide some relief to the banks that were failing amid a bank run. This was the catalyst for the Emergency Banking Act to be passed. 1933's three-day rally was the result of President Franklin Delano Roosevelt de-pegging the U.S. Dollar from the gold standard. So, even positive comparisons to 1933 cannot always be looked at as optimistic.

Economic data tends to be lagged, and the benefit is looking at its trends to anticipate a change in direction. When a negative event occurs this quickly, it is tough to take anything away from most economic data until it starts to factor in the changing environment. However, the one more timely data point is weekly jobless claims, and last week set a record. Last week saw 3.3 million people apply for unemployment benefits. For comparison, the previous record was 695,000 in 1982, and the peak during the Global Financial Crisis was 665,000. It is important to remember how different the current environment is from 2008. Then, we saw the largest impacted sectors being financials and construction, which account for a larger share of GDP, but a smaller percentage of employment. This time, COVID-19 and social distancing are having a greater impact on leisure, retail, and transportation, which are a smaller share of GDP than financials or construction, but a much larger percentage of U.S. employment. This example isn't to provide a "this time is better or worse" argument, just that they are very different environments, and comparisons can lead to misleading results.

Unfortunately, we do expect things to get worse before they get better. However, there are still good investment opportunities, and it is vital to rely on your investment game plan. As former Intel CEO, Andy Grove, stated, "Bad companies are destroyed by crisis. Good companies survive them. Great companies are improved by them."

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